

Agenda Item: 9-6
Meeting Date: June 9 and 10, 2004

LONG-TERM FINANCE OPTIONS AND 10-YEAR FINANCE PLAN

Summary: Authority staff will provide a review of the Draft Finance Options Report, summarizing some of the key findings, and discuss the process and status of a 10-year finance plan for the CALFED Program.

Recommended Action: This is an informational item only. No action will be taken.

Background

The Authority, with the recommendation and support of the Bay-Delta Public Advisory Committee (BDPAC), has directed staff to develop a comprehensive Long-Term (25 year) Finance Options Report. Authority staff, working with a technical team of consultants, has drafted a Finance Options Report which is the culmination of a year-long effort. As part of this effort, Authority staff has established an eight-member Independent Review Panel with broad expertise in public financing. An Ad Hoc Work Group consisting of stakeholders and implementing agency staff has reviewed and provided input to the Authority staff and the Technical Team on the approach and analysis of finance issues and options. A list of all participants is attached (Attachment 1).

Long-term Finance Planning

The Technical Team has undertaken an analysis that focused on development of the following key materials:

- **Summary of CALFED Finance Planning Efforts and Next Steps.** This document, produced in March 2003, provides an overview of past financing efforts related to the CALFED Bay-Delta Program and suggests likely next steps in developing a Program-wide finance plan.
- **Framework and Issues Report.** This document, finalized in October 2003, provides both a preliminary outline of the proposed general framework to be used to develop finance options and a summary of overarching finance issues identified by program managers, stakeholders and others. It also identifies several guiding principles for allocating CALFED Program costs among the public, water users, and other Program beneficiaries.

- **Finance Options Report.** A draft of this document was completed May 11. The Finance Options Report provides the results of the Technical Team's analysis of each Program element's finance options, presents cross-cutting findings and suggests next steps for moving forward. The report is intended to serve as the foundation for ongoing Authority discussions related to long-term finance.

The Finance Options Report is scheduled to be finalized at the August Authority meeting (See Attachment 2 - Process and Schedule). Authority Staff will provide a summary of the key findings at the June Authority meeting. Complete copies of the report are on the CALFED Program website. Copies of the Summary Section are included in this mailing.

Additional public comment on the Draft Report is expected at the BDPAC subcommittee meetings throughout June and July. The final Independent Review Panel meeting was held on May 18. The Panel will prepare a final written report, which is to include a critique of the staff analysis of the report. The Panel report will be provided to Authority members at the meeting.

10-Year Finance Plan

The Administration indicated in the May Revision of the Governor's Fiscal Year 2004-05 Budget (Attachment 3) that it supports enactment of a new water user fee for the CALFED Program. In response, Authority staff intends to develop a specific 10-year finance plan for the Program that identifies across all program elements:

- Reasonable funding targets
- Available funding to meet the targets
- Funding gaps
- Finance tools to fill the gaps

Authority staff is in the process of developing this information, much of which is available from the Draft Finance Options report. Staff will provide an update on the 10 year finance plan at the June Authority meeting.

Legislative Actions on New Fees

At the time this Staff Report was prepared, Legislative Budget Subcommittees were in the process of completing their work and identifying items for Conference Committee to be convened in early June. Both the Senate and Assembly Budget Subcommittees adopted fee language that results in this issue being sent to Conference Committee (see Attachment 4). Authority staff will provide an update on this issue at the June meeting.

List of Attachments

Attachment 1 - List of Finance Plan Participants

Attachment 2 - Options Report Process and Schedule

Attachment 3 - May Revision Language on Fees

Attachment 4 - Senate and Assembly Trailer Bill Language

Separate document in Authority Mailing: Draft Finance Options Report – Summary
Section

http://calwater.ca.gov/FinancePlanning/Draft_Finance_Options_Report_5-11-04.pdf

Contact

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Attachment 1
KEY FINANCE REPORT PARTICIPANTS

Independent Review Panel

David Abel, President, Abel & Associates
David Dowall, Professor, U.C. Berkeley (Chair)
Frederick Furlong, Federal Reserve Bank
Michael Hanemann, Professor, U.C. Berkeley
Wendy Illingworth, Consultant, Economic Insights
Dean Mischynski, Director, California Research Bureau
Daniel Sumner, Professor, U.C. Davis
Dennis Wichelns, Professor, C.S.U. Fresno

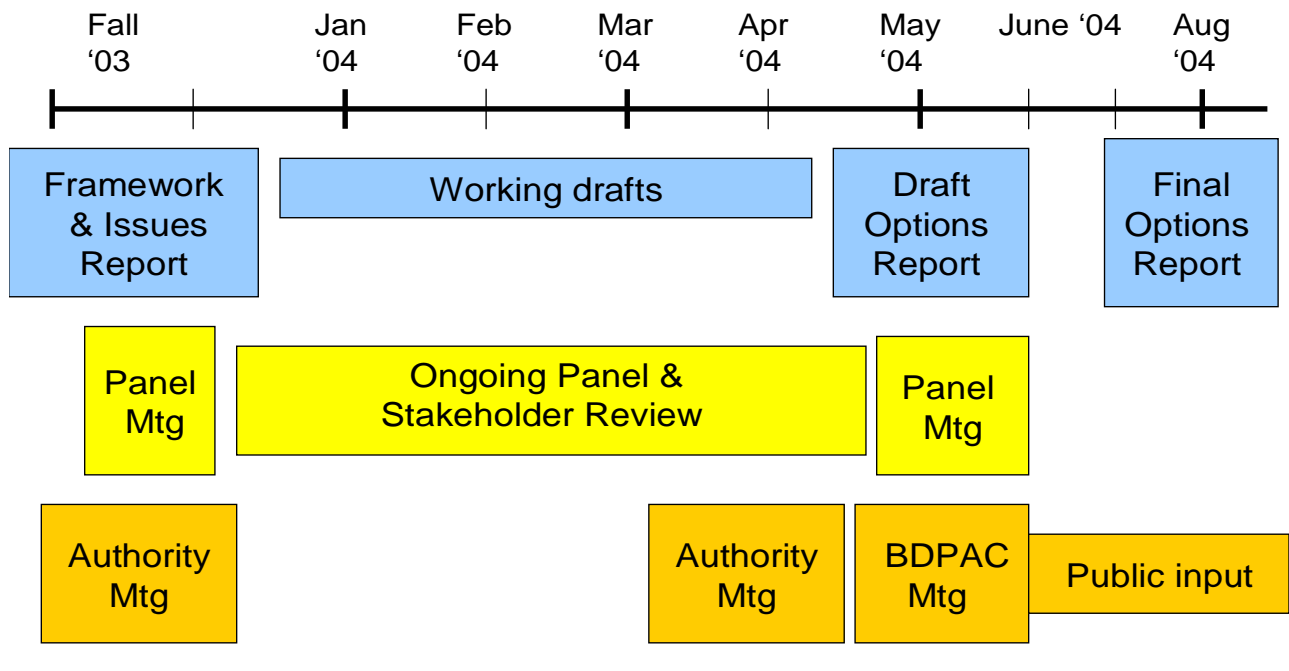
Ad Hoc Stakeholder and Implementing Agency Work Group

Don Bransford, GCID
Tina Cannon, Department of Fish and Game
Mark Cowin, Department of Water Resources
Greg Gartrell, Contra Costa Water Agency
Joe Grindstaff, Santa Ana Watershed Project Authority
David Guy, Northern California Water Association
Steve Hall, Association of CA Water Agencies
Ann Hayden, Environmental Defense
Robert Meacher, Plumas County Supervisor, RCRC
Jerry Meral, Planning and Conservation League Foundation
Barry Nelson, Natural Resources Defense Council
Dan Nelson, SLDMWA
Mark Newton, Legislative Analyst's Office
Lowell Ploss, SJR Group Authority
Tim Quinn, MWD
Frances Spivy-Weber, Mono Lake Committee
Jerry Toenyes, Northern California Power Agency
Doug Wallace, East Bay MUD
Brent Walthall, Kern County Water Agency
Tom Zuckerman, Delta landowner

Technical Team – California Bay-Delta Authority Staff and Consultants

Kate Hansel, Assistant Director, California Bay-Delta Authority
Mike Myatt, California Bay-Delta Authority
David Mitchell, M-Cubed
Richard McCann, M-Cubed
Steven Moss, M-Cubed
Steve Hatchett, Water Resources Economics, WREcon
Roger Mann, RMEcon
Ken Kirby, Indep. Consultant
David Kracman, Schlumberger
Loren Botoroff, Independent. Consultant
Bennett Brooks, CONCUR

Attachment 2 Process and Schedule



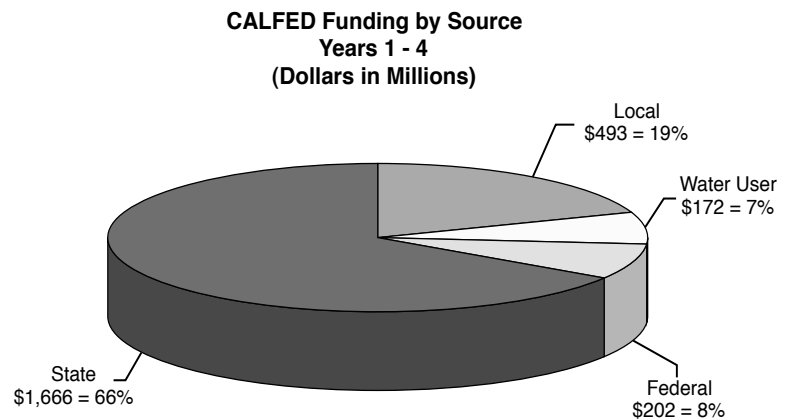
RESOURCES

CALFED Bay-Delta Program

The May Revision proposes an additional \$10.1 million Proposition 13 bond funds for CALFED projects to improve drinking water quality. With this request, the Budget will provide a total of \$381 million for the CALFED Program.

Since the CALFED Record of Decision (ROD) was adopted in 2000, over \$2.5 billion has been invested in water supply, water quality, and ecosystem restoration programs and projects in the 50 counties that depend on the Bay-Delta system for all or part of their water needs. Of the \$2.5 billion, \$1.7 billion has been contributed by the State. This amount is almost twice the proportionate share of State CALFED funding envisioned in the ROD. Federal and local agencies have not contributed comparable levels of funding. With the depletion of bond funding and diminished availability of general funds, the State can no longer afford to pay a disproportionate share for these programs.

The Administration will seek additional federal contributions and will support the enactment of a water user fee consistent with the “beneficiary pays” principle of the ROD. This will ensure that important water supply, water quality, environmental, and levee stability programs continue and receive appropriate levels of funding from all partners in the CALFED effort.



Attachment 4

Senate Budget Subcommittee Fee Language Trailer Bill language adopted 4/29/04

“It is the intent of the Legislature that water users that benefit from the implementation of the CalFed Record of Decision and the CALFED Program shall be responsible for funding one half of the non-federal portion of those costs that provide general and shared benefits to users and to the public. This funding shall be in addition to costs that are charged to direct and identifiable beneficiaries of specific projects and programs.

79425. (a) The authority shall collect a fee annually from those agencies and persons diverting water from the Bay-Delta watershed, in an amount that is equal to one half of the State CalFed Budget as defined in paragraph (c). These fees shall be adjusted to reflect any fees paid in the same year under other provisions of law or agreements if the authority finds that the revenues of those fees are applied to appropriate Bay-Delta Program activities.

(b) The fee imposed by this section shall be in proportion to the amount of water diverted except that the authority may develop an alternative formula that sets minimum diversion amount, and establishes such other criteria as are necessary for the effective and equitable implementation of this section.

(c) For the purpose of this section “State CalFed Budget” means the total amount of funds provided each year to the authority and the implementing agencies to achieve balanced implementation of the program’s goals and objectives, including revenues from the fees identified in paragraph (a), but excluding federal funds, local agency cost share of projects, and costs charged to direct beneficiaries for projects implemented pursuant to this chapter.

(d) The Board shall transmit funds collected pursuant to this section, after deducting reasonable administrative costs, to the appropriate implementing agencies for expenditure.”

Assembly Budget Subcommittee Fee Language Trailer Bill language adopted 5/20/04

“The following subdivision is added to Water Code Section 79401.

(j) It is the intent of the Legislature that user fees be enacted relating to the CALFED Bay-Delta Program activities, adhering to beneficiary pays principles as supported by the Governor in the Governor's Budget May Revision, 2004-05.”